

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 AID-05 CIAE-00 COME-00  
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FM AMEMBASSY KINGSTON  
TO SECSTATE WASHDC PRIORITY 6232

C O N F I D E N T I A L KINGSTON 3730

E. O. 11652: GDS  
TAGS: EFIN JM  
SUBJ: JAMAICAN AGREEMENT WITH THE IMF

REF: KINGSTON 3729

1. ECONOFF HELD SEPARATE MEETINGS WITH JAMAICA IMF REP WILLIAMS AND MINISTER OF STATE FOR PLANNING FLETCHER IN ATTEMPT TO PIECE TOGETHER OUTLINES OF GOJ/IMF AGREEMENT.

2. ON BASIS OF THESE CONVERSATIONS, FOLLOWING EMERGE AS BASIC ELEMENTS OF AGREEMENT.

A. A STANDBY FACILITY WILL BE ESTABLISHED IN THE AMOUNT OF 74 MILLION U.S. OF WHICH 44.4 MILLION COULD BE DRAWN THIS FINANCIAL YEAR AS FOLLOWS:

1. IN LATE AUGUST, 22.4 MILLION: (IT WILL TAKE THIS LONG BEFORE FINAL IMF BOARD APPROVAL OF THE JAMAICAN LOAN. ACCORDING TO WILLIAMS, THE INTERIM APPROVAL HAS ALREADY BEEN CABLED. WE UNDERSTAND FROM LOCAL BANK SOURCE THAT GOJ HAS ALREADY REQUESTED BRIDGING FINANCE TO COVER INTERIM PERIOD. NO PROBLEMS ARE ANTICIPATED.)

2. IN DECEMBER 1977, 11.1 MILLION U.S.  
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3. IN MARCH 1978, 11.1 MILLION U.S.  
B. THERE WILL BE LIMITATIONS WHICH WILL FORM THE BASIS OF PERIODIC PERFORMANCE TESTS, THE FIRST TO BE IN SEPTEMBER. THE LIMITATIONS ARE:  
1. THERE IS A LIMIT ON BANKING CREDIT TO THE PUBLIC SECTOR.

2. THERE IS A LIMIT ON TOTAL BANK OF JAMAICA CREDIT.  
3. THERE IS A LIMIT ON FOREIGN BORROWING OF 75 MILLION FOR 12 YEAR TERM LOANS; AND 150 MILLION ON 5-15 YEAR TERM LOANS. THERE IS NO LIMIT ON LOANS WITH A TERM GREATER THAN 15 YEARS. LOANS WITH A TERM OF UNDER ONE YEAR ARE LIMITED UNDER 4 BELOW.

4. THE GOVERNMENT OF JAMAICA WILL INSURE THAT THERE IS A STEADY IMPROVEMENT IN THE NET FOREIGN RESERVE BALANCE. SPECIFICALLY, NET RESERVES MUST HAVE IMPROVED BY 30 MILLION DOLLARS BY MARCH 1978 (SINCE BORROWINGS OF LESS THAN ONE YEAR MUST BE ACCOUNTED FOR IN THE NET RESERVE FIGURE, THIS RESTRICTION PUT A STRINGENT LIMITATION ON SHORT-TERM BORROWING.).

5. THE GOVERNMENT OF JAMAICA WILL REDUCE ITS ARREARS IN PAYMENTS AND NOT ALLOW THE QUE FOR PAYMENT TO EXCEED 50 MILLION DOLLARS AT ANY ONE TIME. (ACCORDING TO FLETCHER, THE PRESENT QUE, I.E., DEBT PAYABLE AND AWAITING PAYMENT, IS PRESENTLY ABOUT 50 MILLION. WILLIAMS IMPLIED THE AMOUNT MAY BE GREATER.)

6. BY APRIL 1978, THE GOJ MUST PRODUCE ACCEPTABLE SCHEDULE FOR THE REPAYMENT OF PRIVATE DEBT. (PRESENTLY, THE GOJ IS AUTHORIZING PAYMENT ONLY OF INTEREST ON PRIVATE DEBT.)

7. IF THE GOVERNMENT OF JAMAICA IS UNABLE TO MEET THE PERFORMANCE CRITERION SPECIFIED IN 4 ABOVE, ACCORDING TO FLETCHER, THE GOJ MUST "BEGIN CRAWLING THE PEG" IN A STAGED DEVALUATION.

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3. WILLIAMS EXPRESSED CONSIDERABLE PESSIMISM OVER ABILITY OF THE GOJ TO MEET THE PERFORMANCE CRITERIA, PARTICULARLY IN LIGHT OF FACT THAT GOJ HAS ALREADY COMMITTED ITSELF TO IMPORTS OF 750 MILLION (J). (BAUXITE INDUSTRY 160 MILLION PLUS IMPORT LICENSES OF 590 MILLION.) WILLIAMS SAID GOJ CAN NOT IMPORT MORE THAN 790 MILLION IN CY 1977 AND STILL SHOW AN IMPROVEMENT IN NET FOREIGN EXCHANGE RESERVES UNLESS YET ANOTHER NEW SOURCE OF FUNDS CAN BE FOUND. WILLIAMS COMMENTED, SOMEWHAT RUEFULLY, THAT AGREEMENT MAY NOT HAVE BEEN EVERYTHING IMF HAD HOPED FOR IN PART BECAUSE OF "HEAVY PRESSURE" PUT ON BY U.S.

4. FLETCHER EXPRESSED VIEW THAT AGREEMENT WAS FAIR AND SERVES TO "LOOSEN THE NOOSE AROUND JAMAICA'S NECK." HE EXPRESSED APPRECIATION FOR INFLUENCE U.S. BROUGHT TO BEAR ON IMF AND SAID HE WAS OPTIMISTIC OVER PROSPECTS FOR MEETING PERFORMANCE CRITERIA.  
IRVING

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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009